

John Williams'
Shadow Government Statistics
Analysis Behind and Beyond Government Economic Reporting

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May Retail Sales, PPI

June 13, 2012

Revisions Eviscerated Recent Retail Strength

May Sales Fell 0.8% Against Initial April Reporting

PPI Decline Reflected Oil Price Drop Compounded by Adverse Seasonal Factors

PLEASE NOTE: The next regular Commentary is scheduled for tomorrow, Thursday, June 14th. It will cover the May CPI and related real earnings and real retail sales. It will be followed by a June 15th Commentary covering May industrial production.

Best wishes to all — John Williams

Opening Comments and Executive Summary. This morning's (June 13th) new economic data did little to alter the economic outlook discussed in yesterday's (June 12th) [*Special Report No. 445*](#), except that retail sales suddenly are looking a great deal weaker than they did before.

Major downside revisions to April and March have wiped out recent retail sales strength. The 0.17% monthly decline in May would have been a decline of 0.84% before prior-period revisions. After inflation adjustment, revised sales now have been about unchanged for the last four months.

These revisions were developed after the April 30th benchmark revision, and show a reduced level of real retail sales for first-quarter 2012. That could impact the June 28th revision to first-quarter GDP negatively. If not, it certainly should be reflected in the annual GDP revisions due on July 27th.

Where, before inflation adjustment, retail sales fell by 0.17% in May, that likely will turn flat or slightly positive in real terms—after inflation adjustment—if tomorrow’s headline CPI-U declines by anything close to the 0.2% expected in the markets. The effects of the prior-period revisions on the real data, however, already are known, where the previous CPI-U estimates will not be revised tomorrow.

April 2012 previously was reported with an inflation-adjusted monthly gain of 0.11%, which is now a 0.26% [corrected] monthly contraction. Real year-to-year growth in April was downwardly revised to 3.22% from its previous 3.97%.

March 2012 previously was reported with an inflation adjusted monthly gain of 0.39%, which is now a 0.08% monthly gain. Real year-to-year growth in April was downwardly revised to 3.56% from its previous 3.88%.

There were no real surprises in May 2012 PPI reporting. The series is volatile on a month-to-month basis, and the 1.0% headline decline reflected a drop in oil prices that was deepened by the negative seasonal-factor effects on energy costs at this time of the year.

A general review of May economic reporting will follow in Friday’s (June 15th) regular *Commentary* that will follow May industrial production reporting.

Hyperinflation Watch. Yesterday’s (June 12th) [Special Report No. 445](#) updated the hyperinflation outlook, as well U.S. economic, U.S. dollar, and systemic-solvency conditions. The *Special Report* is a supplement to [Hyperinflation 2012](#) (January 25th), which remains the primary missive detailing the hyperinflation story.

REPORTING DETAIL

RETAIL SALES (May 2012)

Revisions Fully Flattened Real Retail Sales Patterns Since January. Despite the generally negative benchmark revisions (April 30th) to retail sales (see [Commentary No. 433](#)), post-benchmark reporting has seen, further, unusually large revisions. Curiously, the same pattern was seen in last month’s post-benchmark industrial production reporting.

The revisions have fully flattened the reporting of real (inflation-adjusted) retail sales since the beginning of 2012. The 0.2% headline decline in nominal retail sales was not, by itself, statistically significant, and, in real terms, it likely will end up about flat for the month, after the reporting of May 2012 CPI-U.

Note: The major revisions highlighted again the reporting quality issues for this series. Reported revisions partially may have reflected unstable seasonal-factor readjustments from the concurrent seasonal-adjustment issues and broader distortions in other seasonal-adjustment factors and sampling methodologies, as discussed in [Hyperinflation 2012](#).

The stability of the seasonal-adjustment process and sampling methods have been disrupted severely by the unprecedented depth and length of the current economic downturn in the post-World War II era (the period of modern economic reporting).

Under such circumstances, where the markets effectively are flying blind as to actual economic activity, consideration of broad underlying fundamentals is essential. Consumer income and credit remain structurally impaired, as discussed in [Special Report No. 445](#). Those factors continue to signal economic deterioration, not recovery, with the broad economy remaining in serious trouble.

Nominal (Not-Adjusted-for-Inflation) Retail Sales. Today's (June 13th) report on May 2012 retail sales—issued by the Census Bureau—indicated a statistically-insignificant, seasonally-adjusted monthly decline of 0.17% (a drop of 0.84% before prior-period revisions) +/- 0.6% (all confidence intervals are at the 95% level). May's decline followed a revised April decline of 0.22%, which previously had been reported as a monthly gain of 0.15%.

Year-to-year May 2012 retail sales were reported up by 5.30% +/- 0.8%, where year-to-year growth for April was revised to the downside, to 5.60% (previously reported as a gain of 6.36%).

Core Retail Sales. Assuming that the bulk of non-seasonal variability in food and gasoline sales is in pricing, instead of demand, "core" retail sales—consistent with the Federal Reserve's preference for ignoring food and energy prices when "core" inflation is lower than full inflation—are estimated using two approaches:

Version I: May 2012 versus April 2012 seasonally-adjusted retail sales series—net of total grocery store and gasoline station revenues—was virtually flat (up by 0.01%), versus an official decline of 0.17%.

Version II: May 2012 versus April 2012 seasonally-adjusted retail sales series—net of the monthly change in revenues for grocery stores and gas stations—also was virtually flat (up by 0.01%) versus an official decline of 0.17%.

Real (Inflation-Adjusted) Retail Sales. Real May retail sales will be assessed along with the release of the May 2012 CPI-U reporting tomorrow, Thursday, June 14th. With a decline expected in the headline May CPI-U, the small nominal decline reported in this morning's retail sales could become flat or slightly positive after seasonal adjustment (also as suggested by the core retail sales calculations).

The effects of the prior-period revisions on the real retail sales data, though, already are known, where the previous CPI-U estimates will not be revised tomorrow. April 2012 previously was reported with an inflation-adjusted monthly gain of 0.11%, which is now a 0.26% [corrected] monthly contraction. Real

year-to-year growth in April was downwardly revised to 3.22% from its previous 3.97%. March 2012 previously was reported with an inflation-adjusted monthly gain of 0.39%, which is now a 0.08% monthly gain. Real year-to-year growth in April was downwardly revised to 3.56% from its previous 3.88%.

Note: As official consumer inflation picks up again, and as overall retail sales continue to suffer from the ongoing consumer liquidity squeeze, these data should turn down meaningfully in what eventually will become a formal double-dip recession.

As discussed in [Special Report No. 445](#), there have been no changes in the underlying fundamentals. There have been no shifts in underlying activity that would support a sustainable turnaround in retail sales, personal consumption or in general economic activity. There is no recovery, just general bottom-bouncing. Accordingly, real retail sales levels in the months ahead should turn negative.

PRODUCER PRICE INDEX—PPI (May 2012)

Seasonal Factors Intensified Downside Reporting of Oil Price Declines in PPI. As reported this morning, June 13th, by the Bureau of Labor Statistics (BLS), the regularly-volatile, seasonally-adjusted finished-goods producer price index (PPI) for May 2012 declined by 1.03% (down by 0.56% unadjusted), versus a decline of 0.21% (up by 0.31% unadjusted) in April. The May decline in reported monthly inflation was more than accounted for by an unadjusted month-to-month decline of 2.41% in finished energy goods, which was seasonally-adjusted into a 4.27% monthly contraction.

Unadjusted and year-to-year, May's total finished goods PPI inflation eased to 0.73%, from 1.89% in April. Annual change in the PPI has softened as the numbers go against a year-ago period when Mr. Bernanke was running QE2 and meeting with early success in debasing the U.S. Dollar and generating an increase in oil prices.

Reflecting the still broad impact of high oil prices on inflation throughout the general economy, the seasonally-adjusted monthly "core" PPI—net of food and energy—increased by 0.17% (unchanged unadjusted) in May, versus a 0.17% (0.11% unadjusted) gain in April. Year-to-year unadjusted core finished goods inflation was 2.71% in May, against the same annual inflation rate of 2.71% in April. A comparison of core PPI with core CPI-U will be graphed in the June 14th *Commentary* covering the May CPI release.

Unlike the payroll and retail sales numbers, where monthly seasonal factors are revamped every month, the PPI and CPI adjustments get revised but once a year. Accordingly, seasonally-adjusted underreporting of energy-based inflation will be offset in the second-half of the year, when seasonal adjustments tend to boost reporting of energy prices.

Intermediate and Crude Goods. On a monthly basis, seasonally-adjusted May intermediate goods prices fell by 0.8%, following a 0.5% decline in April, with May crude goods prices down by 3.2%, versus a 4.4% decline in April. As with finished goods inflation, the monthly declines reflected the unadjusted drop in oil prices compounded by adverse seasonal-factor adjustments.

Year-to-year inflation in unadjusted May intermediate goods fell by 0.6%, following a 1.1% increase in April. The year-to-year inflation in May crude goods declined by 7.7%, against a 7.3% decline in April.

Week Ahead. *Recognition of an intensifying double-dip recession as well as a pending, escalating inflation problem remains sporadic. The political system would like to see the issues disappear until after the election; the media does its best to avoid publicizing unhappy economic news; and the financial markets will do their best to avoid recognition of the problems for as long as possible, problems that have horrendous implications for the markets and for systemic stability.*

Until such time as financial-market expectations move to catch up fully with underlying reality, or underlying reality catches up with the markets, reporting generally will continue to show higher-than-expected inflation and weaker-than-expected economic results in the months and year ahead. Increasingly, previously unreported economic weakness should show up in prior-period revisions.

Consumer Price Index—CPI (May 2012). Due for release tomorrow, Thursday, June 14th, by the Bureau of Labor Statistics, the headline CPI-U is likely to contract. Market expectations appear to be for a 0.2% headline decline, following an unchanged headline reading in April. Where May 2012 gasoline prices fell by 4.2% month-to-month, per the Department of Energy, seasonal factors should exacerbate that decline. Seasonals knocked down an unadjusted 3.6% monthly gasoline-price gain in May 2011 to a seasonally-adjusted 2.0% monthly decline.

As has been the case in recent months, though, the potential for an upside surprise to the negative expectations comes from the broad economy, where the effects of higher oil prices still are working their way into retail pricing.

Year-to-year CPI-U inflation would increase or decrease in May 2012 reporting, dependent on the seasonally-adjusted monthly change, versus the 0.27% gain in the adjusted monthly level reported for May 2011. I use the adjusted change here, since that is how consensus expectations are expressed. To approximate the annual unadjusted inflation rate for May 2012, the difference in May's headline monthly change (or forecast of same) versus the year-ago monthly change should be added to or subtracted directly from the April 2012 annual inflation rate of 2.30%. A May headline contraction of 0.2%, for example, would reduce the CPI-U annual inflation by about 0.5% to roughly 1.8%.

Industrial Production (May 2012). Due for release Friday, June 15th, by the Federal Reserve, the headline industrial production number should contract for May, following the 1.1% monthly gain initially reported for April. Where the working-off of excess inventories should result in softer production numbers, expectations for headline growth seem to be settling in around unchanged.

Despite the recent benchmark revision to industrial production, the April reporting showed post-benchmark revisions that were unusually large and irregular. As always is the case, the accuracy of headline numbers is subject to whatever surveying or reporting problems the Federal Reserve may be having with its series.